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SUBJECT: IAEA SAFEGUARDS BUDGET ADVOCACY

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1. (SBU) Summary: At UNVIE request, IAEA DDG/Safeguards briefed Geneva Group members on April 15 regarding his department's 2010/11 budget proposal. Heinonen made a compelling case for the proposed budget increase, but key member states appear to remain skeptical. Heinonen began by explaining why savings from "Integrated Safeguards" will not be sufficient to address growing safeguards needs, then proceeded to describe major projects underway that require additional funding. The Safeguards Analytic Laboratory (SAL) was most prominent in this regard. In response to a question from DCM, Heinonen also described the consequences should new funding not be available. He effectively dismissed a German assertion that because the IAEA did not expend the entire safeguards budget last year it was "hard to argue" for a budget increase in this budget cycle. Also in response to German comments, Heinonen noted that the IAEA cannot be expected to "win tomorrow's war with yesterday's tools." Heinonen's presentation was an effective opening salvo in the safeguards budget debate, but much work remains in convincing even our close friends to break away from zero real growth. Questions and comments from Germany, Spain, and France underlined the challenge Mission sees to prompting consideration of the IAEA budget issue in the context of the overarching and highest-priority strategic nonproliferation objective, rather than by counting beans from the green-visored perspective of a finance ministry. (Note: After the briefing Heinonen shared his presentation slides in confidence with us, e-mailed to ISN/RA and IO/T; some figures in those slides may evolve before appearing in final in the next Safeguards Implementation Report. End note.) End Summary.

2. (SBU) IAEA Deputy Director General Olli Heinonen (DDG/Safeguards) began by describing the budget proposal as "very tight" despite the requested increase, and attributed much of the tightness to two large ongoing projects, Enhancing Capabilities of the Safeguards Analytic Services (ECAS) and the Safeguards Information System Re-engineering Project (IRP). (Note: ECAS involves upgrades/replacement of Safeguards Analytical Laboratory, SAL, facilities at Seibersdorf; IRP is replacement of the IT system for handling all safeguards information.)

3. (SBU) Heinonen prefaced detailed discussion of the above projects as well as others with an explanation of why savings from Integrated Safeguards (i.e., decreased routine inspection activity in states that provide wider-ranging access and information under the Additional Protocol) will not provide significant funds beyond the savings already achieved. He showed slides depicting a decrease in routine inspection activities of approximately 20 percent since 2001, while in the same timeframe there was an increase of approximately 25 percent in the quantity of nuclear material subject to safeguards. But, Heinonen noted, this period of

adjustment/savings resulting from the move to Integrated Safeguards is closing because the states with the most significant nuclear activities have already been folded into the Integrated Safeguards regime. Thus, further states adopting the AP will result in little savings to offset the increasing demands on the safeguards regime as additional nuclear facilities and material increasingly come on-line worldwide.

14. (SBU) Exacerbating this trend, Heinonen continued, is the fact that new facilities coming on-line tend to be labor intensive because they involve plutonium, which requires frequent inspections to meet IAEA "timeliness" goals. He cited specifically the reprocessing and MOX fuel plants under development in Japan and the expected growth in the number of nuclear power reactors across the globe. The DDG/Safeguards described the proposed safeguards budget increases as each falling into one of the four following areas: 1) replace old instrumentation and equipment; 2) new facilities subject to safeguards; 3) enhance detection of undeclared activities; 4) manage and analyze large amounts of information.

15. (SBU) After so dismissing the "just look to savings" chimera, Heinonen proceeded to describe the safeguards needs that must start to be met to achieve and maintain a strong safeguards regime. He noted that about 25 percent of the Secretariat's budget proposal is consumed by 8 projects: 1) India, 2) JMOX (safeguards systems for new MOX fuel plant in Japan), 3) Chernobyl (safeguards systems for monitoring and disposition of fuel containing material found at the site of the accident), 4) Safeguards Instrumentation (replacement of obsolescent instrumentation), 5) ECAS (SAL upgrade/rebuild), 6) Novel Technologies (new tools, novel or not, to detect undeclared facilities and activities), 7) ICT Systems Support and Operations (Safeguards IT hardware and security infrastructure, including move to new location), and 8) Integrated Analysis (analysis tools specifically tailored to improve effectiveness and efficiency of drawing Safeguards conclusions). Estimates for these eight projects assume regular budget amounts of 63 million euros, extrabudgetary contributions of 15 million euros, and capital investment of 39 million euros over the 2010-2011 budget cycle.

16. (SBU) During his presentation and in response to a question from DCM, Heinonen stressed in particular the imperative for enhancing SAL's ability to analyze environmental samples and for ensuring no interruption of the Agency's ability to analyze nuclear material samples. In regard to analysis of environmental samples, Heinonen underlined that it will always be more efficient and effective to analyze most samples via the Network of Analytic Laboratories (NWAL), but that the IAEA needs to upgrade its own capability such that it can show it is not completely reliant on the NWAL for higher-sensitivity analysis of select samples in a timely fashion. On analysis of nuclear material samples, Heinonen stressed that the Agency is not in a position to rely on the NWAL for such analyses, in light of transportation and other pragmatic considerations. (Comment: The facts that support this viewpoint should be examined and updated if it is found that NWAL labs could effectively and efficiently share part of the analysis and thereby reduce the risk of SAL being a single point of failure. The risk would not change even when the laboratory is completely modernized if SAL continues to perform 99% of these analyses. This is an ideal time to examine all old assumptions, because Safeguards is currently soliciting new labs to join or re-join the NWAL for nuclear materials analysis and developing more detailed requirements for the SAL of the future. End comment.)

17. (SBU) In response to a question from DCM, Heinonen said the consequence of inaction would be two-fold regarding SAL. First, any delay would simply increase the cost, as it is not efficient to spend more money to keep the current SAL limping along in its current state. Second, he noted that should the already deteriorating nuclear material laboratory at SAL fail in such a way that requires it to be out of service for some period, this would result in at least a temporary hiatus in the agency's ability to achieve its safeguards goals. Addressing the consequences of a funding shortfall in respect to the Agency's legal obligations to monitor new facilities subject to safeguards agreements, in particular facilities in India and at Japan's JMOX facility, Heinonen asserted the IAEA cannot simply tell them "thanks, but no thanks." Further commenting on consequences of further zero real growth, Heinonen said the department's IT-related efforts would be

forced to continue to spend money "buying time" by keeping old systems in place before moving to new systems that will serve as the new platform for "information-driven" safeguards. This would be inefficient and costs more in the end. He noted, for example, that he had already been forced to cut away necessary training for inspectors on the new IT systems.

¶18. (SBU) German, French, and Spanish representatives all queried Heinonen regarding the funding request for SAL, in particular. Prefacing his remarks by noting that the IAEA budget request is a "major problem" for Germany, but that Germany assigns "high political value" to the safeguards regime, the German DCM said the IAEA should seek more contributions from host-country Austria. Heinonen responded by explaining that, contrary to when it was founded, the Austrian Seibersdorf facility in which SAL is located no longer includes a vibrant nuclear research center. Thus, the necessary infrastructure costs for handling nuclear material are not readily covered by existing Seibersdorf capabilities. As to the suggestion that SAL be relocated to another country, Heinonen noted the costs associated with moving approximately 50 staff, and claimed one could have no long-term assurance that the economics of any move would be better than staying at nearby Seibersdorf.

¶19. (SBU) German DCM also noted that the Safeguards Department had not spent its entire 2008 budget allocation and posited it was therefore "hard to argue" for a budget increase. Heinonen's retort began by an implied reference to the underlying imperative for strengthening the safeguards regime by recalling EC Commissioner Barroso's comment that you cannot "win tomorrow's war with yesterday's tools." On the specific substance, Heinonen responded that funds went unexpended last year due to the fact that projects that had been budgeted for were delayed by the host state, such as at JMOX. It would have been foolish and inefficient for the Agency, for example, to "buy equipment early and put it on a shelf" just to expend the funds in the same budget year. The funds were still needed and this delay in expenditure in no way implied some sort of "cushion" in the safeguards budget; there is no such cushion, Heinonen asserted.

¶10. (SBU) DCM asked if staffing in the Safeguards Department was adequate to the task and how much staff growth the proposed budget would allow. Heinonen said he was currently requesting 20 new safeguards slots. He observed that the move toward strengthened and integrated safeguards (an approach that requires a state-level evaluation to help assure the absence of undeclared activities) requires an evolution in the work of inspectors. Specifically, there is a relative decrease in traditional inspection activity, and a relative increase in the need for analysis of all available information on a state's nuclear program. So, the Safeguards Department needs sufficient people, but also needs to keep evolving their skill set. Looking to the future and as an example of the ongoing evolution in safeguards, Heinonen noted the possibility of "remote inspections" in which data from inspection equipment is accessed and analyzed in Vienna.

¶11. (SBU) Alluding to ongoing activities in Iran, DCM asked Heinonen whether the department would have what it needs should another such issue emerge. Noting that the exercise in Iran had been a larger resource drain when Iran was actually providing more information and access earlier in the investigation, Heinonen said there is "no cushion" in the safeguards budget and that he would have to go to the Board to ask for more funds if a new compliance issue arose.

¶12. (SBU) Referring to two measures of safeguards effort displayed on viewgraphs used by Heinonen for his presentation, German DCM asked whether "person days of inspection" (PDI) or "calendar days in the field" (CDF) was the more accurate of the two measures. Heinonen said they are very similar, but there are differences between, for example, the CDF costs going to Canada vice going to Japan. He also made a broader point by acknowledging that the Safeguards Department is not well positioned to do specific cost estimates in this regard and that SAGSI is looking at the issue. He said he hopes once the AIPS project is finalized the department will have available the data it needs in a usable form. For now, doing such cost analysis is "a manual job" and inefficient.

¶13. (SBU) Comment: Heinonen ably described the imperative for more safeguards resources, but the reaction from Germany, in particular,

(and France outside the meeting) shows that there is still much work to be done to persuade even our close friends that the time has come to put our money where our mouth is in support of the critically important IAEA safeguards mission. Following the briefing, MsnOff engaged Frederic Claude, Safeguards Advisor for Heinonen, and Alicia Reynaud, Section Head for Safeguards Programme and Resources, on taking forward the budget debate. One possibility for sharpening the IAEA's case would be to develop further the argument implied by Heinonen's recall of the Barroso quote about "yesterday's tools." At several points in the presentation Heinonen referred to the fact that key ongoing projects are to put in place the platform from which "information-driven" safeguards could operate. Of the four categories identified by Heinonen into which ongoing projects fall, the last two (detect undeclared activities, manage/analyze large amounts of information) reflect the challenge of strengthened safeguards. In order to place member states' consideration of the safeguards budget issue on a higher strategic plane, the Agency might further stress the resources it will need to ensure that new "information-driven" safeguards can provide the solid assurances the international community must have. These assurances include not only the traditional safeguards function of accountancy for declared nuclear material, but also for the strengthened safeguards goal of providing assurances of the absence of undeclared activities. The cases now before the IAEA Board of Governors (Iran, Syria, DPRK) underline the pivotal juncture the IAEA faces in that regard. End Comment.

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